



# Frequently Asked Questions

## About the acquisition of the El Conquistador Country Club

### BACKGROUND

#### 1. Why is the Town purchasing the El Conquistador Country Club?

Oro Valley residents have been requesting a community center for many years. In the latter part of 2014, the Hilton El Conquistador Resort and Country Club was sold, and the new owner did not want to own and operate the Country Club; therefore, discussions took place about the Town purchasing the property for the purpose of turning it into a community and recreation center. The property includes 324 acres of land, a 31,475-square-foot building, restaurant, 31 tennis courts, 45 holes of golf and two swimming pools.

#### 2. When did the idea to purchase the property first come up?

Although the specific executive session materials are confidential by state law, the idea was first discussed with all seven Town Council members in an executive session on June 18, 2014. Two more executive sessions were held on the matter, in which all seven members were present: October 15, 2014 and December 3, 2014.

#### 3. Why doesn't the Town build a new community center?

The cost of building a new facility will cost much more than acquiring the existing facility. Based on a proposed plan and elements of the original 2007 Naranja Park Master Plan, a new community center could cost more than \$20 million. The Town does not have \$20 million in reserves, and therefore, would have to bond (or finance) the cost of the project. Interest on a \$20 million facility would cost an additional \$7 million dollars over the 20-year life of the bonds. The total cost of the facility would therefore be approximately \$27 million. Additionally, a new facility would likely incur an annual operational "loss." Community center operational costs often exceed revenues by \$500,000 to \$1.5 million annually.

### PROPERTY DETAILS

#### 4. What is the purchase price of the property, and what is the value?

An appraisal was completed and the property

is valued at \$3.25 million. The purchase price is \$1 million, to be paid in cash over three years. The appraisal also estimates a replacement value of \$42 million, which includes the cost to rebuild the golf courses, tennis courts, buildings, etc.

#### 5. Has an analysis of the property been completed?

Yes. The Town's Building Official has inspected all of the structures. The report was then provided to architects and construction experts in order to prepare cost estimates of needed upgrades. Additionally, Troon management, an internationally-recognized, premier leader in the industry, inspected all the golf course facilities. It is estimated that \$5.5 million is needed to improve the property over the next five years; therefore, the acquisition cost (\$1 million), plus the needed capital investment (\$5.5 million), result in a total "all-in" capital cost of \$6.5 million. These improvements, along with strong management, will drive revenues up.

#### 6. Is there a warranty deed on this property?

No, there is no warranty deed, so the Town intends to purchase insurance through a title company to protect us from any unknown risks.

#### 7. What was the Town's due diligence/inspection process?

The Town of Oro Valley Building Official completed the initial inspections on the buildings. We then utilized the services of Swaim Associates Architecture for the building proper (analyzing the Building Official's inspection list). They provided a complete review as well as added suggestions to turn these facilities from a private country club to a public community center. Aqua Design International analyzed the condition of the pools (Aqua Design was our designer who engineered all of the pools and water features of our present Aquatic Center). They also supplied the estimate to remediate the pools to an acceptable operation condition as well as meet current code and health standards. Arizona Restaurant Supply (ARS) analyzed the kitchen components and provided an estimate to bring the kitchen facilities up to current code and health

standards. Comusult Construction Cost Consulting gathered all of the information and provided a detailed cost breakdown of all the elements discovered by Town staff, Swaim, Aqua Design and ARS. Environmental Strategies Inc. analyzed and tested the facility for asbestos-laden materials, particularly in the fire retardant areas as well as insulation. Inspections/analysis of the golf courses were completed by Troon representatives, with some participation from Town staff on certain elements of the analysis.

#### 8. What about tennis?

The Town of Oro Valley currently has one (1) tennis court in its Parks & Recreation system. This purchase will add thirty-one (31) more lighted courts. Fifteen (15) of those courts are at the Country Club location on La Cañada Drive, and sixteen (16) are at the Hilton Hotel location near Oracle Road. Access to the courts will be included in the monthly membership. A daily drop-in will also be available. Having more than twenty-five (25) courts makes the Town of Oro Valley eligible to host tournaments, which bolsters economic development and builds on our reputation for youth and amateur sports.

### GOLF & FINANCIAL PROJECTIONS

#### 9. Did the Town consider buying just the country club building and not the golf courses?

The Town did inquire about the possibility of purchasing the El Conquistador Country Club facility without the golf courses; however, the building and amenities operate as one unit and are only being sold together.

#### 10. Has the Town considered selling the golf courses after the sale is complete?

The Town has not considered selling the golf courses at this time. With the Town's financial projections, planned capital improvements and Troon managing the courses, we are confident the facility will break even and possibly turn a slight profit in year four. Additionally, the golf courses will be assets for our community, as there are currently no municipal courses in the Town of Oro Valley.

**11. If the Hilton couldn't make money on the Country Club, how can the Town make money?**

Hilton's primary focus was always the resort property (hotel). When capital resources were available, the funding was usually dedicated to the resort instead of the country club. The Troon golf management company has been contracted to manage the golf, restaurant and much of the facility. In 65% of the public facilities that Troon manages, the properties break even or are profitable.

**12. The golf industry seems to be struggling. Why acquire a golf course?**

The Town is not able to acquire the community and recreation center facility without also taking ownership of the golf courses. The number of golfers nationwide has followed the downturn in the economy. Many industry experts believe golf courses were "over built" during the real estate expansion in the last 20 years. Many golf courses went out of business due to the large amount of debt they carried. The Town is purchasing the property with cash and will carry zero debt. Similar to any operation, it will take good management and capital investment in order to be successful. There are numerous golf courses across the country that are profitable.

**13. Haven't the El Conquistador golf courses operated at a financial loss?**

Yes. In recent years, the expenditures have exceeded the revenues by approximately \$1.2 to \$1.5 million per year. Under private ownership by the Hilton, the country club and golf course expenses included the annual payment of property taxes. Because the Town does not pay property tax, this is an immediate savings that will be realized when the Town takes ownership; therefore, the Town's annual loss in the beginning years is expected to be approximately \$1.2 to \$1.3 million. This anticipated shortfall is the reason for the \$2 million additional revenue generated by the increase in sales tax. It is not uncommon for a community center to have expenditures exceed revenues by \$1 million annually. The revenue shortfall occurs because municipalities strive to keep rates affordable, which therefore creates a situation where the broader revenue sources help fund the operations costs (this occurs in numerous government functions).

**14. The financial projections on the golf operations seem overly optimistic. How does the Town think these numbers will be achieved?**

Town staff worked very closely with Troon to analyze and scrutinize all golf operation

projections provided by Troon on golf round projections, revenues and expenses. A number of measures will be implemented to achieve increased interest in golf and the other activities and programs that will be offered at the community and recreation Center. First, the golf operations will now be professionally managed by Troon, an internationally-recognized, premier leader in the industry. Troon manages more than 230 golf courses around the world and can leverage their purchasing power to significantly lower operations and equipment costs at the facility. Secondly, Troon will implement unique and creative programs to spur increased interest in golf for all ages, including youth and school programs. Finally, the Town and Troon will partner to significantly increase the marketing and advertising efforts to promote the courses and restaurant facilities to a greater degree than under past management.

## HALF-CENT SALES TAX

**15. What is the estimated cost per household, per month of the 0.5% sales tax increase?**

Because sales taxes are paid by both Town residents and non-residents, it is estimated that approximately 2/3 of local tax revenues are generated by Town residents. If we apply this 2/3 to the total annual estimated collections of \$2 million from the 0.5% sales tax increase, it results in approximately \$1.3 million of this total paid by Town residents. If we divide \$1.3 million by the approximately 18,500 households in the Town and divide by 12, the result is \$5.85 per household per month.

**16. Does the half-cent sales tax impact purchases like groceries and fuel?**

No. The half-cent sales tax increase does not apply to groceries or gasoline. The estimated impact is \$5.85 per household per month.

**17. How will the additional revenue (from the sales tax) be utilized?**

Two million dollars in new revenue will be generated from the half-cent sales tax, which will become effective March 1, 2015. In the first two years of operations, the average revenue shortfall is approximately \$1.2 to \$1.3 million. The remainder of the \$2 million will be used for capital investment. The investments in the property, golf and restaurant facilities will help to increase operational revenue. By year three, the operation shortfall dramatically decreases to approximately \$200,000, and in year four, is decreased entirely.

## IMPACT TO OTHER PROJECTS & SERVICES

**18. Will other planned Town projects be delayed because of this purchase?**

No. The Town has authorized dedicated funding for this facility. The increase in the sales tax from 2% to 2.5% will allow the Town to fund the operations and the capital improvements for the facility. All other Town operations and capital projects are moving forward as planned.

**19. Will this project impact development of Naranja Park?**

The Town is currently in the process of updating the master plan for Naranja Park, so the timing of this potential acquisition couldn't be better. Any newly-acquired amenities will be taken into consideration when developing the Naranja Park plan. Since funding for the operations and maintenance of the proposed community and recreation center would be from a dedicated half-cent sales tax, funds would not be taken from any planned development at Naranja Park.

**20. Will the Town pay for the use of water?**

Yes. The Town's Water Utility operates as an "enterprise," which means that it is fully supported by user fees. The Town pays for its water use as any other customer would. The Town is currently a water customer and pays for irrigation in Town parks. The cost of water is one of the expected expenditures to operate the facility. The El Conquistador receives revenues from customers of the facility for golf, tennis, fitness, restaurant, etc. The revenues from these sources will be used to pay for the water expenses.

## MEMBERSHIP

**21. Will this facility have memberships? Will it be open to non-residents?**

Yes, this facility will have memberships, and yes, it will be open to non-residents. Membership rates are still being developed and should be announced in early 2015.

**22. How much will it cost to use the facility?**

Membership fee details are being developed; however, rates will be on par with comparable facilities in the region and will include a discount for residents.

**23. Will the golf course be membership-based or open to the general public?**

Both. The golf courses and restaurants will be managed by Troon. There will be memberships, daily rates, and multiple special rates based on season, time of day, etc. The rates are being discussed, and an Oro Valley resident discount membership will be available.